Business Standard

Negative outlook list may get longer, Q1 biz to be hit: Rating agencies

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Abhijit Lele | Mumbai April 22, 2021 Last Updated at 00:57 IST

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Flagging an adverse impact of the surge in Covid-19 cases, rating agencies have said some more sectors could move to the "negative outlook" list.

Disruption due to lockdown curbs may impact business performance in the first quarter ended June 2021 (Q1FY22) before recovery in the second quarter (Q2FY22).

Ramnath Krishnan, president of ratings, ICRA, said the agency would revisit the sectoral outlook for FY22 (made in February 2021) and evaluate the impact on sectors and the overall economy. There are some sectors with a negative outlook. Some more could get added to the "negative outlook" category.

In February, things seemed to be coming under control with vaccination, giving the impression the system would cope with the pandemic. In April, the situation went into reverse. At risk of entrenched rough times are sectors like hospitality and those with discretionary spends, said rating agency executives.

Before rating action (like a downgrade) on corporate or entity-level loans and bonds, it is the outlook may change, for instance, from “positive” to “stable” or “stable” to “negative”.

CARE Ratings Chief Executive Ajay Mahajan said, given the gravity of the situation, the agency was beginning a fresh review of sectors and entities.

Subodh Rai, senior director and chief ratings officer, CRISIL, said the spread of Covid-19 had become more wide now. The Industry Resilience Framework, developed last year to track the pandemic impact, continues to guide monitoring. The six sectors with low resilience include retail, hospitality, gems and jewellery, airlines, and automotive dealership.

CRISIL’s ratio of upgrades to downgrades (called the credit ratio) for October 2020-March 2021 (H2FY21) improved to 1.33 in the second half of FY21 from 0.54 in the first half.

Analysts with rating agencies said they had increased the frequency of conversation in real time with companies being monitored. The shock from the first wave of Covid-19 in 2020 was much more widespread and deep, leading to contraction in economic activity.

This time the effect could be less severe due to localised lockdowns and permission for manufacturing, transport, and logistics to remain in operation.

“At this point of time the assessment is disruption may happen but I do not see a large-scale impact on credit quality,” Rai said.

Krishnan said conversations with corporates had become sharper to get a sense on issues like the supply chain impact, the stability of migrant labour, and financial impact. The first quarter of the current financial year (April-June 2021) could be worse than what was expected in February 2021, he said.

India Ratings said the agency would put some sectors (outlook) in review mode. The sectors which could see an immediate impact from the second wave would be two-wheelers and three-wheelers and select textile units catering to primarily domestic demand, said Abhishek Bhattacharya, senior director and head of large corporate ratings.

The fiscal health of state governments remains a concern, particularly for sectors like power.